

## Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 EB-07 COME-00 TRSE-00 CIAE-00 INR-07

NSAE-00 XMB-02 /026 W

----- 072272

R 150055Z APR 76

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 3845

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E.O.11652: N/A

TAGS: BEXP, ID

SUBJECT: U.S. FIRMS AND SUGAR MILL BIDS

REF: (A) JAKARTA 4633; (B) STATE 076313;

(C) LETTER TO SUMARLIN FROM AMBASSADOR DATED APRRIL 5

1. SUMMARY: E/CM COUNSELOR MET WITH BAPPENAS DEPUTY CHAIRMAN SALEH AFFIF FOR ONE HOUR AND 15 MINUTES ON FRIDAY, APRIL 9, IN RESPONSE TO AMBASSADOR'S LETTER (REF C) SENT TO BAPPENAS VICE CHAIRMAN SUMARLIN. AFFIF PROVIDED FIRST AUTHORITATIVE EXPLANATION OF GOI PROCEDURES IN CONSIDERING BIDS SUBMITTED AGAINST TENDER NO. 1 ISSUED BY BKU/PNP. END SUMMARY.

2. ACCORDING TO AFFIF, INITIAL ANALYSIS ALL SUBMISSIONS WERE PURELY TECHNICAL, CONDUCTED SOLEY BY BKU. HE OBSERVED THAT BAPPENAS AND MINISTRY OF FINANCE HAD NO RPT NO EXPERTISE FROM THIS STANDPOINT. BIDS WERE ANALYZED ON SCALE FROM 100 DOWN TO 75. THIS ANALYSIS WAS THEN PRESENTED TO THE MINISTERS OF PLANNING, AGRICULTURE, FINANCE, AND THE GOVERNOR OF THE CENTRAL BANK. THIS COMMITTEE THEN INSTRUCTED THE FINANCIAL AGENCIES TO ANALYZE THOSE BIDS SCORING ABOVE 90, IN TERMS OF THEIR PRICES. IT WAS ASSUMED THAT SINCE THE SPREAD FOR SUCH BIDS WAS OLY FROM 90 TO 96 THAT THESE DIFFERENCES, FROM A TECHNICAL STANDPOINT, WERE ONLY LIMITED OFFICIAL USE

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MARGINAL, AND THAT THE LOWEST PICES WOULD GOVERN

DECISION. IT WAS DISCOVERED IN THIS ANALYSIS OF PRICES THAT SOME SUBMISSIONS WERE ON A FIXED PRICE BASIS AND OTHERS HAD ESCALATION CLAUSES TO ACCOUNT FOR INFLATION. ALL OF THE TENDERS WERE ASKED TO RESUBMIT NEW PRICES ON A FIXED PRICE BASIS BECAUSE THE EXCALATION FORMULAE WERE SO DIFFERENT. AFFIF SAID WHEN THE FIXED PRICES WERE RECEIVED, AMERICAN BID (KATY-FULTON) HAD HIGHEST TECHNICAL RANKING, BUT WAS NOT COMPETITIVE ON A PRICE STANDPOINT, AND THEREFORE WAS DROPPED OUT OF FURTHER CONSIDERATION.

3. CURRENT NEGOTIATIONS BETWEEN THE LOWEST BIDDERS WHO SCORED ABOUT 90 ON A TECCHNICAL BASIS AND GOI FINANCIAL OFFICIALS ARE UNDERWAY IN AN EFFORT TO ATTEMPT HAVE BIDDERS REDUCE ALL PRICES TO THE LOWEST PRICE.

4. AFFIF SAID THAT ARKEL'S SUBMISSIONS NOT ONLY DID NOT FALL WITHIN THE 90 AND ABOVE GROUP, BUT ITS PRICES WERE HIGHEST. AFFIF REITERATED THAT IT IS THE OBJECTIVE OF THE GOI TO GET THE BEST MILLS FOR THE LOWEST PRICE FOR ALL SIX MILLS.

5. EMBASSY RECEIVED TELEX FROM ABERLE OF LANG ENGINEERING A.M. OF APRIL 9, CITING KATY-FULTON'S LATEST OFFER. E/CM COUNSELOR REVIEWED THESE PRICES WITH AFFIF, WHO POINTED OUT THAT TELEX REVEALED FROM JATITUJUH MILL NOW AT \$44.2 MILLION WAS ORIGINALLY \$47 MILLION, BUT THAT LOWEST COMPETING PRICE FOR THIS MILL, RATED ABOVE 90 TECHNICALLY, WAS \$37 MILLION. ON THE KUNIR MILL, KATY-FULTO'S LATEST OFFER OF \$39.7 MILLION WAS STILL WELL ABOVE LOWEST PRICE OF \$33 MILLION. AND KATY-FULTON'S LATEST SUBMISSION FOR "ALL OTHER FACTORIES" OF \$42.5 MILLION WAS COMPARED WITH \$30 MILLION.

6. AFFIF ALSO ONCE AGAIN REVIEWED UNATTRACTIVENESS OF EXIM FINANCING, EVEN WITH CURRENT P.C. OFFER OF 25 PERCENT GUARANTEE, AS CONTRASTED WITH BRITISH, FRENCH AND DUTCH. HE ALSO REITERATED AT LENGTH DIFFICULTIES OF NEGOTIATIN NOT ONLY WITH EXIM BANK, BUT SYNDICATE BANKS COVERING COMMERICAL PORTION OF CREDIT. IN THIS REGARD, HE NOTED LIMITED OFFICIAL USE

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THAT DESPITE SIGNING TWO DAYS PREVIOUSLY OF CHASE MANHATTAN CREDIT FOR GRESIK CEMENT THAT BANK INDONESIA IS STILL PRE-FINANCING THIS PROJECT AND WILL CONTINUE TO DO SO FOR NEXT THREE OR FOUR MONTHS, BECAUSE EXIM PRO-CEDURES ARE SO CUMBERSOME THAT BORROWER IS NOT ABLE TO IMMEDIATELY DRAW DOWN ON AVAILABLE FINANCING.

7. CONCLUSION: IN GENERAL, EMBASSY MUST CONCLUDE THAT

UNLESS U.S. SUPPLIERS, NOT ONLY IN SUGAR MILLS BUT ON ALL GOI SUPPLIER/BUYER CREDIT TENDERS, CAN BEAT COMPETITION ON PRICE, REGARDLESS OF EXIM INVOLVEMENT, THEY ARE SIMPLY NOT GOING TO BE ABLE TO WIN BIDS. FURTHERMORE, GIVEN ATTITUDE OF GOI FINANCIAL AUTHORITIES REGARDING COMPETITIVENESS OF EXIM FINANCING, WE DO NOT ANTICIPATE EXIM FINANCING BEING AN EFFECTIVE PROMOTIONAL TOOL IN MOST CASES. WE BELIEVE GOI WILL RESERVE EXIM FINANCING FOR THOSE PRODUCTS AND/OR PROJECTS WHERE U.S. IS SOLE SOURCE OR HAS VERY SUPERIOR TECHNOLOGICAL EDGE.

8. SECONDLY, BASED UPON INFORMATION FROM LOCAL AGENTS OF U.S. BIDDERS, WE CONCLUDE THAT FOR SUGAR PROJECT TENDER BEST U.S. STRATEGY FOR U.S. BIDDERS AND EMBASSY ALIKE IS: (A) TRY TO FIND OPPORTUNITY TO PRESENT SINGLE CLEAR-CUT PROPOSAL PACKAGE FROM EACH U.S. BIDDER OUTLINING BEST POSSIBLE U.S. TERMS, PRICES, ETC.; (B) KEEP PRESSING THESE BIDS ON GOI EVALUATION TEAM IN MANNER WHICH WILL INHIBIT QUIET ACCEPTANCE BY TEAM OF ANY OBVIOUSLY LESS ATTRACTIVE EUROPEAN BIDS; (C) WAIT FOR EUROPEANS TO FALTER DUE TO LIKELY INABILITY DELIVER AT PRICES QUOTED, INABILITY PROVIDE ADEQUATE FINANCING, QUESTIONABLE TECHNICAL ASPECTS, ETC.: EMBASSY RECOGNIZES SUCH WAITING GAME STRATEGY POTENTIALLY TIME-CONSUMING AND FRUSTRATING, BUT WE BELIEVE IT OUR BEST HOPE AT THIS POINT. TWO U.S. BIDDERS ARE IN BEST POSITION ASSESS LIKELIHOOD EUROPEAN BIDS ARE IN REALITY AS ATTRACTIVE AS APPEAR ON SURFACE AND AS GOI SEEMS TO BELIEVE. IF EUROPEAN BIDS ARE NOT, THEN ABOVE PROPOSED STRATEGY MAY EVENTUALLY SUCCEED SO LONG AS WE CAN PREVENT PRECIPITOUS OR "BACKROOM" GOI DECISION.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 15 APR 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** BoyleJA  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760142-0795  
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**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 JAKARTA 4633, 76 STATE 76313  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** BoyleJA  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 24 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <24 MAY 2004 by greeneet>; APPROVED <20 SEP 2004 by BoyleJA>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** U.S. FIRMS AND SUGAR MILL BIDS  
**TAGS:** BEXP, ID  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006